

May 8, 2007

Winston Hickox
Chair, Cal EPA Market Advisory Committee

Members, Cal EPA Market Advisory Committee

re: Comments to the Market Advisory Committee
submitted via email: climatechange@calepa.ca.gov

Dear Chairman Hickox and Market Advisory Committee Members:

The Nature Conservancy appreciates the important work that the Market Advisory Committee is undertaking to assist the state in implementing AB 32, the Global Warming Solutions Act of 2006 and thanks you for the opportunity to provide input to your process.

The Nature Conservancy is an international, nonprofit organization dedicated to the conservation of biological diversity. Our mission is to preserve the plants, animals and natural communities that represent the diversity of life on Earth by protecting the lands and waters they need to survive. Our on-the-ground conservation work is carried out in all 50 states and in more than 30 foreign countries and is supported by approximately one million individual members. Working with partners, we have conserved nearly 1.2 million acres of land in California. The Conservancy is also a new member of U.S. Climate Action Partnership.

Climate change poses the single greatest threat to our mission of protecting nature and to the many investments in lands and waters we have made over the past 60 years. Shifting seasons, distorted lifecycles of plants and animals, more intense and frequent storms, droughts and fires, melting glaciers and rising sea levels—these are the devastating effects of global warming. These changes are not only affecting plants and animals, but also all of us who depend on the Earth's natural resources for our well-being and our way of life. And, the longer we wait, the steeper and more costly it becomes to prevent the dangerous consequences of global climate change. As Governor Schwarzenegger has said, the time for action is now.

In response, California demonstrated its leadership in developing policy to address climate change and what we do here will have an impact on policies being developed at the national and international scale. It is therefore important that the Market Advisory Committee make sound recommendations to the Air Resources Board and CalEPA as they act to develop effective climate policy that we hope will reduce overall emissions at a pace needed to protect biodiversity, promote forest protection and restoration for the climate benefits they provide, and increase public funding for conservation programs that help nature adapt to global warming. Below, we elaborate on these three issues that The Nature Conservancy believes are of paramount importance in the consideration of market mechanisms in climate change policy:

- **Strong cost-effective cap and well-designed program to protect ecosystems and human well-being.** The core function of a climate change policy should be to set in motion and sustain a course of strong and effective actions that produce long-term reductions in greenhouse gas emissions that will be sufficient to stabilize the climate at a level that will protect human society and the natural world. Achieving such significant reductions will require both deployment of a wide range of currently available tools as well as development of advanced technologies. A program should be designed to be cost-effective and to send appropriate long-term price signals to stimulate needed investment in emissions-reducing technologies. The California program should consider how best to send this long-term price signal given the current statutory mandate through 2020

A mandatory cap on greenhouse gas emissions with opportunities for trading should be at the core of any policy approach to address this issue. Trading can increase the program's cost effectiveness. The forestry and land use sectors expands the opportunities to develop mechanisms in this area and should be included in this program.

- **Reduction of emissions from forest and land use through the incorporation of a robust and credible emission reduction credit program.** The Nature Conservancy strongly supports the inclusion of robust emission reduction credit provisions in a greenhouse gas cap and trade program that will allow real emission reductions from domestic and international activities to be used by regulated entities for compliance with their allowance obligations, provided that they are verifiable and meet other standards for high quality emissions reductions (additionality, permanence and enforceability). These type of credits offer real cost-effective emission reductions and lower the cost of emission reduction programs. Emission reduction credits from land conservation and restoration projects can provide additional benefits by supporting forest protection and protection of other natural areas.

California has taken the lead in this area of climate policy by the creation of protocols for forestry projects by the California Climate Action Registry. These protocols are arguably the most stringent in the world and are proven methods for reliably measuring, monitoring and verifying land-based, forest carbon offsets. The Nature Conservancy recommends that your committee encourage the Air Resources Board to treat these protocols in the same manner as the Climate Action Registry protocols for mandatory emissions reporting.

The Conservancy strongly recommends that emission reduction credits from improved forest and cropland management, reforestation, and forest and grassland conservation be included in a program to limit greenhouse gas emissions for the following reasons:

1. These credits offer real emission reductions and provide a ready mechanism for encouraging reduction of GHG emissions and sequestration in land use activities.
2. Credits both increase the flexibility and increase the cost effectiveness of emission reduction programs. By expanding the allowance market to include low cost emission reductions from sources outside of the cap, credits would allow covered entities to take on tighter emissions limits without increasing compliance costs and, thus, increase the overall environmental benefit of the program.
3. Credits help to protect the market against price volatility and, thus, lessen the need

for price control instruments such as a safety valve.

4. Credits from the forestry sector will produce significant environmental co-benefits enhancing the very resources - natural ecosystems - that will endure significant impacts from global climate change. Using forests to reduce emissions will help protect water quality, fish and wildlife habitat, biological diversity, and help reduce criteria pollutants in urban areas. Most importantly, environmental co-benefits from forest offsets will occur in California.

Unfortunately, carbon storage rates in forests and other landscapes in the United States are declining. Without additional economic incentives, such as carbon credit payments to forest land owners, carbon storage rates in these landscapes are expected to continue to decline. Carbon project financing from a credit program would create important incentives to increase carbon storage and reduce emissions from terrestrial sources.

- **Assurance that the program helps the natural world and those who depend on healthy ecosystems adapt to the impacts of climate change.** Climate change is already creating challenges to vulnerable species and habitats in the U.S. and around the world. The recent report of the Intergovernmental Panel on Climate Change estimates that 20-30% of the world's species could go extinct if we are not successful in reducing emissions.

The auction of allowances under a cap provides an opportunity to address this challenge. Allowances under a national cap are a public trust: they are a permit to use the atmosphere, which belongs to all of us. Allowances will be worth billions of dollars each year, and their value will increase over time as the pollution cap declines. Consequently, the allocation method chosen is important. The Nature Conservancy supports a program that will transition to a full auction of the allowances under a cap as quickly as feasible and economically desirable, considering an interest in maintaining market stability and gaining experience with the auction mechanism.

The Conservancy advocates dedicating at least 50% of allowance auction revenues to a Climate Change Adaptation Fund that would assist the natural world adapt to the impacts of climate change in the U.S. and abroad, and help reduce the impacts of climate change on the most vulnerable members of society. Such a fund can help reduce the impacts that low-income Californians will face from transition costs.

Thank you again for the opportunity to provide input to your important process. We hope that these comments are useful and that your final report includes recommendations for a robust role for the forestry and land use sectors. Should you have any questions or wish to discuss these topics in more detail, please contact Louis Blumberg, Director of California Forest Policy, at (415) 281-0439.

Sincerely,

Louis Blumberg
Director of California Forest Policy